# Changes in Global Trade Rules for Textiles and Apparel: Implications for Developing Countries (EG Summary of a Nathan Report)

**SUMMARY:** The international textiles and clothing trade is going through fundamental changes under the now almost completed ten-year transitional program of the Uruguay Round Agreement on Textiles and Clothing (ATC) to phase out, over the ten-year period 1995 – 2005, all production and trade quotas on textiles and clothing (T&C).[1] By January 1, 2005, the country- and item- specific quotas on textile and clothing imports established by importing countries under the Multifiber Arrangement (MFA) and its predecessor arrangements that have regulated T&C trade since the 1960s, will be a thing of the past. The quotas will have been completely phased out for T&C exporter and importer countries that are members of the WTO, GATT's successor organization. The pattern of world textile and apparel trade (T&A) trade can be expected to change considerably – and is already doing so - as a result.

Many T&A-exporting developing countries will feel the impact of these changes, and for many of them the impact may be adverse and require significant adjustments. What does this mean for countries USAID assists? To find out what the impact on USAID-assisted countries would be, and what USAID should do to help them deal with it, the EGAT/EG Office contracted Nathan Associates to make an assessment of the challenges posed for textiles and apparel-exporting developing countries by the complete abolition of production and trade quotas for textiles and apparel. Cited in the ITC's report of 2003 (see EG Technical Briefing No. 10), the Nathan report, delivered in November 2002, is even more timely today, as the full quota phase-out deadline of January 1, 2005 is now just a few months away.

As a group, developing countries are likely to benefit from the elimination of importing countries' quotas on textiles and apparel imports. There has been concern that the benefits would be concentrated in the hands of a few, exceptionally low-cost supplier large developing countries (*e.g.*, China, India and Pakistan) as investors opt increasingly for locations that offer lower manufacturing costs and are no longer constrained in their marketing plans by quotas. The report's findings confirm that it is indeed likely to be the case, that many T&A exporting countries will have to make adjustments to a more competitive situation, and suggests ways in which USAID can help them make the necessary adjustments.

**BACKGROUND:** The system of MFA quotas, typically binding on large low-cost supplier countries, but typically not binding on their poor but higher-cost rivals, made the latter countries' T&A exports artificially competitive in the major importing countries' markets.

In addition, a proliferation of preferential trade agreements with the United States and Europe also provided incentives for many small countries to develop their T&A exports, as an easy way to create employment opportunities and foreign exchange earnings. Having joined the WTO, GATT's successor institution, China is poised to increase its market share globally since it is now benefiting from the ATC's removal of quotas.

## MAIN FINDINGS OF THE REPORT

The ongoing liberalization of textiles and apparel quotas will produce a rapid shift in market shares, with large low-cost Asian countries gaining significantly. This trend is already underway, with China's market share rising in 2002.

By 2002 removal of quotas under the ATC was already facilitating a surge in Chinese T&C exports to major markets such as the U.S. and E.U. China's T&C exports in twelve out of eighteen previously quota-constrained T&C categories that had quotas at least partially eliminated in 2002 increased by at least 100 percent. In the luggage and handbags category China's exports increased by 400 percent, reaching a 60 percent share in the U.S. market, as they "ousted longstanding Asian and North American exporters alike and shifted thousands of unskilled jobs from nearly every region of the world to China."

*Technical Briefings* is published by USAID's Office of Economic Growth in Washington, DC. This publication aims to share technical and analytical information with USAID field missions, as well as the economic, private sector, and agricultural development program officers. Any views, interpretations, and conclusions expressed in ***Technical Briefings*** are those of the author (s) alone and do not represent any official views of USAID or the U.S. Government. If you have feedback, suggestions or ideas about Technical Briefings, please contact Jim Elliott (jelliott@usaid.gov) Suggestions for subjects are always welcome. This briefing was authored by Shewit Habtemichael and Jim Elliott.

EGAT

With additional binding quotas to be eliminated by the end of 2004, some countries and regions will be exposed to a higher risk of losing market shares in the new, more liberal trade environment. Even countries that benefit from preferential bilateral trade agreements such as the Caribbean Basin Economic Recovery Act (CBERA), North American Free Trade Agreement (NAFTA), and the African Growth and Opportunity Act (AGOA) giving their exports, including T&A exports, preferential access to the U.S. market, will be at a particular risk of losing T&A export market share, since the degree of tariff preference may not suffice to offset the lower cost advantage of their large low-cost Asian competitors.

Another important result of quota removal will be a significant increase in world exports of textiles and clothing worldwide and an associated decline in prices of textiles and apparel. As exporters compete in the fierce market, prices may decline below long-term costs for some of the higher cost producers. Governments in developing and developed countries will be under intense pressure to retreat to trade remedies, mainly the use of antidumping, countervailing duties, and “safeguard measures” to deal with market disruptions. [2] These trade barriers are allowed under the WTO as long as countries have sufficient evidence to support their actions.

**OPPORTUNITIES FOR USAID MISSION ASSISTANCE**

For host countries with significant exports in textiles or clothing, USAID Missions have several ways in which to provide effective technical assistance, including: (1) Conduct a country specific competitive assessment to evaluate a country’s risk exposure to the elimination of textiles and apparel quotas; (2) Provide technical capacity building assistance in the textile and apparel sector; (3) Help maintain international labor standards since competition for textile and apparel in the world market will increase the pressure to lower the working conditions of textiles and apparel industry workers below international labor standards, and , (4) Support manufacturing and export trade diversification strategies for high-risk countries whose economies will be squeezed due to quota elimination. The strategies will help countries identify opportunities to diversity into other labor-intensive industries.

**HOW TO ACCESS THIS REPORT**: The full document of *Changes in Global Trade Rules for Textiles and Apparel* and other Nathan Associates Inc. reports, such as *Issue Brief – The Doha WTO Ministerial: Textiles Trade and Developing Countries*, but can be accessed at: www.nathaninc.com/publications/

**Other sources to consult:** Cline, William R. *The Future of World Trade in Textiles and Apparel, Intitute for International Economics*, Washington, D.C., 1987 (especially for its description and analysis in its chapters 6 through 9 of the three MFAs through 1987, the MFA-IV negotiation and the system of T&C quotas prior to the inception of the first MFA in 1974).

**END NOTES**

[1] The term “Textiles and Clothing” and its acronym “T&C” in this technical briefing will be used as synonymous with the term Textiles and Apparel and its acronym “T&A,” since the Agreement on Textiles and Clothing is effectively an agreement on textiles and apparel.

[2] “Market disruption” is operationally defined, according to Cline (1987, p. 147) as “instances of sharp import increases associated with low import prices not attributable to dumping or foreign subsidies,” a concept developed and applied to the T&C sector in GATT discussions of 1959 and 1960.